

CREDIT UNION
DEPOSIT GUARANTEE
CORPORATION

🍁 Alberta



A N N U A L R E P O R T 2 0 1 2



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DEPOSIT GUARANTEE STATEMENT

The Credit Union Deposit Guarantee Corporation (the “Corporation”) operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. The Corporation guarantees the repayment of all deposits with Alberta credit unions including accrued interest. The *Credit Union Act* provides that the Province of Alberta will ensure that this obligation of the Corporation is carried out.

VISION

To have the strongest, most successful credit union system in Canada.

MISSION

To provide regulatory oversight and guarantee of deposits to enable a strong, viable credit union system in Alberta.

PRIMARY ROLES

- Provide a 100% guarantee of deposits held with Alberta credit unions.
- Regulate credit unions and enforce the *Credit Union Act*.
- Review, advise and direct on credit union sound business practices.
- Monitor credit union performance and implement appropriate actions to improve performance and reduce risks.
- Establish individual credit union loan approval limits and provide an appropriate adjudication process for loans exceeding these limits.

CORPORATE GUIDING PRINCIPLES

Governance

- We employ sound business practices in our governance and operations and model these for the credit unions.

Operations

- We oversee business practices in Alberta credit unions through risk-based management practices to monitor compliance to the *Credit Union Act*.

- We strive to maintain the Deposit Guarantee Fund at a level that will enable us to independently provide the 100% guarantee of credit union deposits.
- We operate efficiently and effectively in achieving our goals through continuous improvement of our processes and practicing prudent fiscal management.

Employees

- We treat all employees with fairness and respect.
- We encourage creativity, innovation and individual initiative in our employees in support of continuous improvement and growth.
- We promote wellness and work-life balance.

External Stakeholders

- We encourage and support credit union autonomy and accountability.
- We maintain open and effective communications with the Ministry of Treasury Board & Finance, Credit Union Central Alberta Limited and Alberta credit unions to ensure a common understanding of each other's roles.
- We constantly seek ways to improve stakeholder service and satisfaction.

CORPORATE VALUES

We do the right thing and commit to:

- Integrity
- Respect
- Accountability

MESSAGE FROM THE CHAIR

On behalf of the board of directors and management, it is my pleasure and privilege to present the 2012 Annual Report for the Credit Union Deposit Guarantee Corporation.

Let me first wish Paul Kennett, who retired as President & CEO in May, all the best in his future endeavors, and we thank him for his valuable contribution to the organization. Board member David Dominy stepped in as Interim President & CEO for the remainder of 2012. We appreciate David taking on this short term role.

On behalf of the Board of Directors, I am pleased to announce the appointment of Tim Wiles as President & CEO effective March 1, 2013. Tim, who previously served on our board, spent almost 25 years with the Government of Alberta, the last 7 years as a Deputy Minister in three departments; Seniors and Community Supports, Finance, and most recently in Education. Prior to joining the government, Tim spent 8 years with Ernst and Young servicing clients in a wide range of industries. Tim is a Chartered Accountant and has a Bachelor of Commerce degree from the University of Alberta.

Alberta is weathering the worldwide economic crisis and is in good condition. Credit unions' financial results and trends are improving lock step with the provincial economy. Increased capital buffers adopted by credit unions and robust liquidity management programs position them to support Alberta's growth in all sectors and provide members with a viable made in Alberta alternative to the banks.

In closing, let me thank the Corporation's employees and management for their support during the CEO transition. Also, we are grateful for the continuing positive relationships with Alberta Treasury Board & Finance, Credit Union Central Alberta Limited, and Alberta credit unions. Together we will continue to build the strongest, most successful credit union system in Canada.

Ken Motiuk, B.Sc. Agr, C. Dir.
Chair, CUDGC Board of Directors

MESSAGE FROM THE PRESIDENT & CHIEF EXECUTIVE OFFICER

New beginnings are exciting and offer many opportunities. In that light, I am thrilled to have joined the Credit Union Deposit Guarantee Corporation.

I am leading a solid organization that is focused on the safety and soundness of the credit union system. The steps we have taken to contribute to the stability of the system have been effective. Despite a period following the 2008 financial crisis of higher delinquency rates, compressing margins, and tightening liquidity, we are seeing these trends begin to reverse. In 2012 no additional credit unions were placed under supervision, and, as at October 2012, all but one credit union (99.1% of system assets) have a positive return on assets.

This last year credit unions had to fully transition to International Financial Accounting Standards, now the standard across Canada. The credit unions' transition proved relatively uneventful, demonstrating the overall readiness of the system for the change.

The Corporation has a rigorous process for early intervention to proactively identify potential areas of concern and work collaboratively with credit unions to develop and implement improvement plans. As part of our efforts, in 2012 we introduced new supervisory capital buffer standards. In cooperation with a credit union working group, we adopted modified Basel III standards

and will phase in the new capital requirements by 2017. I am pleased to advise that most credit unions have already achieved compliance with these standards.

We are taking a cautious approach to the emergent Basel III liquidity standards. Regulators are reviewing how to apply these standards in a financial cooperative framework with pooled liquidity and a 100% deposit guarantee. In 2013, we will continue to work with credit unions to determine how best to monitor liquidity in the Alberta credit union system.

Credit unions embody the spirit of Alberta – they are independent, responsive, and strive to be the best. At the Corporation, we are very supportive of the credit unions' role in the financial success of Alberta. We take special pride in our role as both regulator of credit unions and guarantor of their deposits.

Our accomplishments reflect the dedication and pride of our employees and the Board of Directors. I sincerely appreciate their commitment to achieving our goals. Our vision is to have the strongest, most successful credit union system in Canada and we will continue to work collaboratively with our stakeholders to achieve this.

Tim Wiles, CA
President & Chief Executive Officer

2012 GOALS AND RESULTS

STRATEGIC COMMITMENTS

PROGRESS

Commitment 1: To improve quality of risk management

- | | |
|--|--|
| <ol style="list-style-type: none"> 1. To improve quality of risk management in the credit unions 2. To improve quality of risk management oversight of credit unions 3. To improve quality of risk management for the Corporation | <ul style="list-style-type: none"> • Advised credit unions of the new capital requirements based on a review of the Basel III international standards • Continued work on our electronic information management project and completed the update of our records taxonomy and retention schedule • Published Model Credit Risk Management Policy to assist credit unions to create policies and or lending procedures that consider risk appetite and tolerance • Continued to evolve the Corporation's Enterprise Risk Management program • Improved the Corporation's internal IT governance |
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Commitment 2: To respond flexibly to changes in our environment and prepare for future changes

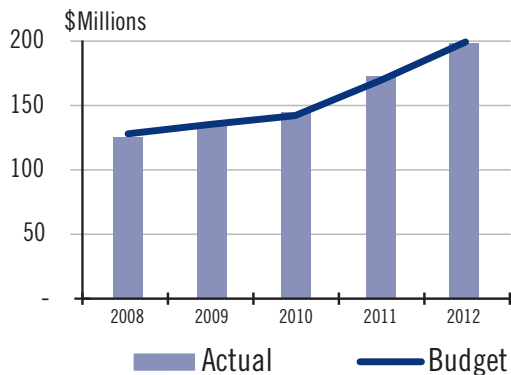
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| <ol style="list-style-type: none"> 1. To create capacity and breadth in the organization 2. To respond flexibly to emerging priorities | <ul style="list-style-type: none"> • Increased efficiency of credit union monitoring program • Completed required core internal report changes as a result of the IFRS revisions to the Financial and Statistical Management System • Created dashboard and other new reports to provide enhanced information to risk managers • Analyzed Basel III rules for capital and liquidity and determined actions required • Became a member of the newly formed Credit Union Prudential Supervisors Association (CUPSA) which will "improve the regulation & supervision of credit unions across the country through enhanced information sharing and coordination to address emerging issues". CUPSA's first initiative was the release of Capital Adequacy Principles |
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Commitment 3: To be leaders in collaborating within the financial system

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. To expand consultation and knowledge sharing with Alberta credit unions 2. To expand consultation with other stakeholders and leverage results | <ul style="list-style-type: none"> • Established a credit union pilot group to assist with developing capital and liquidity standards • Obtained input from credit unions on Model Credit Risk Management Policy • Issued a discussion paper to credit unions on the implications of changing interest rate environments • Participated in national credit union regulator initiative to compare capital rules in the different provinces |
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FINANCIAL SUMMARY

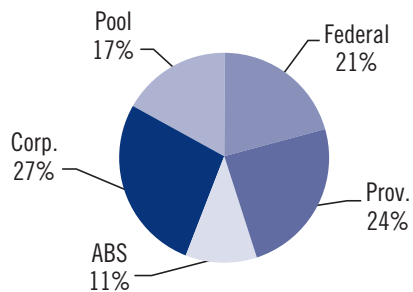
DEPOSIT GUARANTEE FUND



DEPOSIT GUARANTEE FUND

The Deposit Guarantee Fund (Fund) is maintained to protect Alberta credit union depositors. In 2012 the Fund grew 15.4% over 2011 as the result of assessments received from credit unions. The Fund size objective is that it be maintained at a level enabling the Corporation to meet its obligations. The Corporation's objective is to reach Fund target of 1.50% of credit union deposits and borrowings by 2017. As of December 31, 2012 the Fund is at 1.07% of deposits and borrowings.

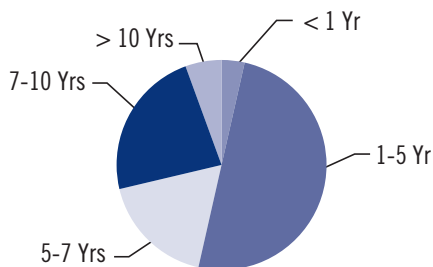
INVESTMENTS – MARKET VALUE



INVESTMENTS – MARKET VALUE

The investment portfolio represents 93% of total assets of the Corporation. Investments are investment grade fixed income instruments and are invested in the categories as shown in the chart. All asset backed securities in the portfolio are rated AAA.

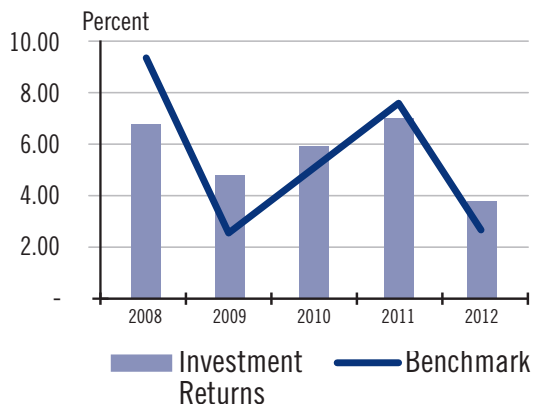
TERM TO MATURITY



INVESTMENT – TERM TO MATURITY

The portfolio term to maturity is being maintained slightly below policy benchmark levels. Approximately 55% of the portfolio is in the less than one year to five year term. While an increase in interest rates is not anticipated for the upcoming year, investments are being positioned for potential future rate increases.

ANNUAL RETURNS

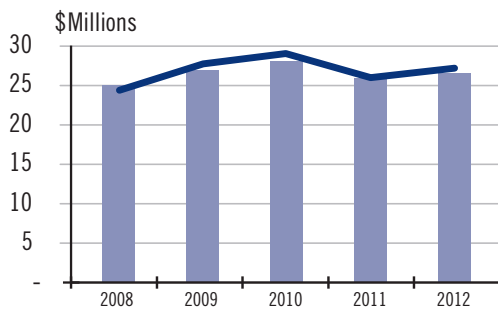


INVESTMENT ANNUAL RETURNS

The total portfolio investment returns for 2012 (net of fees) exceed the benchmark by 1.2%. The portfolio consists of investments in a segregated account (83%) and in a bond pool (17%). Returns for the segregated account are marginally higher (0.7%) than the benchmark while returns for the bond pool are 3.9% higher than the benchmark.

FINANCIAL SUMMARY

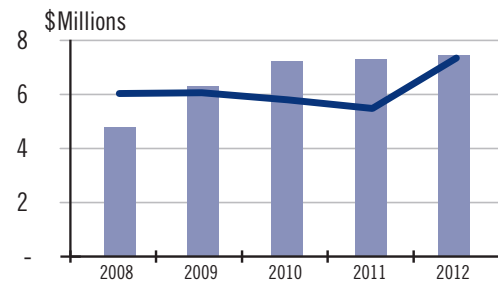
ASSESSMENTS



ASSESSMENT REVENUE

Assessment revenue is based on credit union deposits and borrowings multiplied by the assessment rate. The assessment rate is reviewed annually and a rate is established to enable the Corporation to reach a Fund target of 1.5% by 2017. The assessment rate was reduced to 14 basis points effective November, 2012.

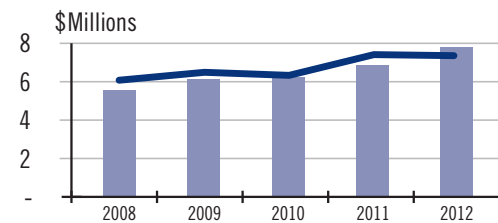
INVESTMENT INCOME



INVESTMENT INCOME

Investment income for the year is marginally higher than the budgeted amount as the result of higher investment income and net gains on sale of securities.

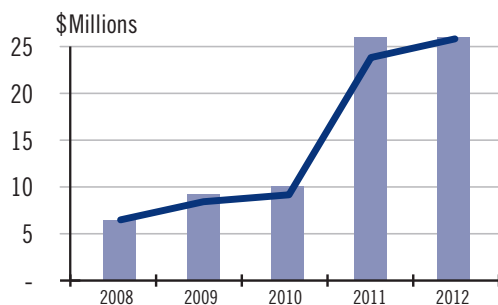
ADMINISTRATION



ADMINISTRATION EXPENSES

The 2012 administration expenses are higher than budget and prior year, largely the result of the payment of a retirement allowance due to the unexpected early retirement of the President & CEO; that expense was partially offset by lower employee salary and benefit costs and travel expenses.

NET INCOME



NET INCOME AND GAINS (LOSSES)

Net income for 2012 is lower than the budgeted amount as a result of higher than planned administration expenses largely the result of the payment of a retirement allowance due to the unexpected early retirement of the President & CEO.

Actual Budget

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Credit Union Deposit Guarantee Corporation ("Corporation"), and all other information contained in the annual report, have been prepared and presented by management, who are responsible for the integrity and fair presentation of the information therein. The financial statements have been prepared in accordance with International Financial Reporting Standards.

Other financial information presented in this annual report is consistent with that in the financial statements. The financial statements and related financial information presented in this annual report reflect amounts determined by management based on informed judgments and estimates as to the expected future effects of current events and transactions with appropriate consideration to materiality.

Management is responsible for the design and maintenance of an accounting and financial reporting system along with supporting systems of internal controls designed to provide reasonable assurance that financial information is reliable, transactions are properly authorized and recorded, liabilities are recognized, and the Corporation's assets are appropriately safeguarded. These controls include written policies and procedures, the selection and training of qualified employees, a code of conduct and ethics and the establishment of an organizational structure with appropriate delegations of authority.

The Board of Directors, acting through the Audit & Finance Committee, oversees management's responsibilities for the Corporation's financial reporting and systems of internal

control. The Audit & Finance Committee reviews the financial statements and other financial information presented in the annual report, as well as any issues related to them, with both management and the external auditors before recommending the financial statements for approval to the Board. Their review of the financial statements includes an assessment of key management estimates and judgments material to the financial results. The internal and external auditors have free access to the Audit & Finance Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting and which recommends the consolidated financial statements to the Board of Directors.

The Auditor General of Alberta has been engaged to perform an independent, external audit of these financial statements in accordance with Canadian generally accepted auditing standards and has expressed his opinion in the report following. The Auditor General has full and unrestricted access to the Audit & Finance Committee and meets with them periodically, both in the presence and absence of management, to discuss their audit, including any findings as to the integrity of the Corporation's financial reporting processes and the adequacy of the systems of internal controls.

Tim Wiles, CA

President & Chief Executive Officer

Elaine Friedrich, CA, ICD.D

Vice President, Finance, Governance & Human Resources

INDEPENDENT AUDITOR'S REPORT



To the Directors of the Credit Union Deposit Guarantee Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Credit Union Deposit Guarantee Corporation, which comprise the statement of financial position as at December 31, 2012 and the statements of net income and comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Union Deposit Guarantee Corporation as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher, FCA]
Auditor General

March 6, 2013
Edmonton, Alberta

STATEMENTS OF FINANCIAL POSITION

As at December 31

<i>(thousands of dollars)</i>	Notes	2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents	4	\$ 8,519	\$ 13,704
Accrued interest receivable		1,063	976
Assessments receivable		4,274	4,302
Prepaid expenses		59	105
Tax receivable		141	40
Total Current Assets		14,056	19,127
Non Current Assets			
Investments	5	194,062	163,665
Property and equipment	8	581	758
Intangible assets	8	116	126
Total Non Current Assets		194,759	164,549
TOTAL ASSETS		\$ 208,815	\$ 183,676
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	9	\$ 1,249	\$ 1,532
Provision for financial assistance	10	238	969
Total Current Liabilities		1,487	2,501
Non Current Liabilities			
Deferred tax liability		1,606	1,704
Long-term unclaimed credit union balances		998	847
Total Non Current Liabilities		2,604	2,551
TOTAL LIABILITIES		\$ 4,091	\$ 5,052
EQUITY			
Commitments and contingencies	11		
Deposit guarantee fund		\$ 198,665	\$ 172,163
Accumulated other comprehensive income		6,059	6,461
TOTAL EQUITY		\$ 204,724	\$ 178,624
TOTAL LIABILITIES AND EQUITY		\$ 208,815	\$ 183,676

The accompanying notes are part of these financial statements.

Approved by the Board: March 6, 2013

Original signed by
Ken Motiuk, Director

Original signed by
Lorraine Oxley, Director

STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

For the Years Ended December 31

<i>(thousands of dollars)</i>	Notes	2012	2011
NET INCOME (LOSS)			
Revenues:			
Assessment revenue	13	\$ 26,706	\$ 25,687
Interest income	5	7,006	6,471
Gains (losses) on disposal of investments	5	400	866
		34,112	33,024
Expenses:			
(Recovery of) provision for financial assistance	10	(11)	84
Administration expenses	17	7,653	6,689
		7,642	6,773
Income before income taxes		26,470	26,251
(Recovery of) income taxes	12	(32)	110
NET INCOME (LOSS) FOR THE YEAR		26,502	26,141
OTHER COMPREHENSIVE (LOSS) INCOME			
Fair value adjustment, net of tax [tax: 2012 – \$25; 2011 – (\$978)]		(86)	3,679
Reclassification to net income, net of tax		(316)	(684)
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR, NET OF TAX		(402)	2,995
COMPREHENSIVE INCOME		\$ 26,100	\$ 29,136

The accompanying notes are part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31

<i>(thousands of dollars)</i>	Accumulated Other Comprehensive Income	Deposit Guarantee Fund	Total Equity
Balance as at December 31, 2010	\$ 3,466	\$ 146,022	\$ 149,488
Net income for the year	-	26,141	26,141
Other comprehensive income (loss) for the year, net of tax	2,995	-	2,995
Balance as at December 31, 2011	6,461	172,163	178,624
Net income for the year	-	26,502	26,502
Other comprehensive (loss) income for the year, net of tax	(402)	-	(402)
Balance as at December 31, 2012	\$ 6,059	\$ 198,665	\$ 204,724

The accompanying notes are part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31

	2012	2011
Operating activities:		
Assessments received	\$ 26,734	\$ 26,110
Interest income received	5,966	6,063
Financial assistance (paid)	(720)	(315)
Interest and bank charges (paid)	(1)	(1)
Income taxes (paid)	(59)	(314)
(Paid) to suppliers and employees	(7,505)	(5,951)
Special contribution (paid)	-	(18,153)
Net cash flows from operating activities	24,415	7,439
Investing activities:		
Purchase of investments, net	(29,556)	(17,699)
Purchase of property and equipment	(42)	(759)
Purchase of intangible assets	(2)	(86)
Net cash flows used in investing activities	(29,600)	(18,544)
Cash (outflow) inflow	(5,185)	(11,105)
Cash and cash equivalents at beginning of year	13,704	24,809
Cash and cash equivalents at end of year	8,519	13,704

The accompanying notes are part of these financial statements.



NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 NATURE OF ORGANIZATION

The Credit Union Deposit Guarantee Corporation (“Corporation”) operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. The primary purposes of the Corporation are to focus all of its operational activities on achieving its legislated objectives including:

- Provide a 100% guarantee of deposits held with Alberta credit unions.
- Regulate credit unions and enforce the *Credit Union Act*.
- Review, advise and direct on credit union sound business practices.
- Monitor credit union performance and implement appropriate actions to improve performance and reduce risks.
- Establish individual credit union loan approval limits and provide an appropriate adjudication process for loans exceeding these limits.

The *Credit Union Act* provides that the Province of Alberta (“Province”) will ensure that this obligation of the Corporation is carried out. As at December 31, 2012, credit unions in Alberta held deposits, including accrued interest, totaling \$18.3 billion (2011 - \$17.1 billion).

To meet its primary purposes the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund. The Corporation assesses credit unions to support the Deposit Guarantee Fund. The Corporation’s Statements of Net Income and Comprehensive Income includes deposit guarantee assessments received from credit unions, investment income, provision for financial assistance, administration expenses and other related revenues and expenses.

The amount, timing and form of financial assistance that may be required for credit unions are dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamation, arrangements, liquidation or dissolution. Supervised credit unions receive assistance, support and direction in planning, policy and operational matters from the Corporation.

NOTE 2 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and were approved by the Board of Directors on March 6, 2013.

The historical cost basis of measurement, except for available-for-sale financial assets that are measured at fair value in the Statements of Financial Position, has been used in preparation of the financial statements. Statements are in Canadian dollars and rounded to the nearest thousand.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The Corporation’s financial statements include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the provision for (recovery of) financial assistance (Note 10: Provision for Financial Assistance), assessment revenue (Note 6: Assessments Receivable), and the fair value of investments (Note 5: Investments). Actual results may differ from these estimates depending upon certain future events and uncertainties

Financial Instruments

The Corporation’s investments are non-derivative financial assets and are classified, based on management’s intentions, as available-for-sale. Investments are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, they are measured at fair value. Changes, other than impairment losses, are recognized in other comprehensive income and presented within equity. When an investment is derecognized/sold, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Intangible Assets

Property and equipment and intangible assets are stated in the Statements of Financial Position at historical cost, less accumulated depreciation, amortization and impairment losses.

Cost includes the expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment. Assets which are fully depreciated are maintained on the books at original cost less accumulated depreciation and show zero net book value.

Depreciation, amortization and impairment losses are recognized in net income. Depreciation and amortization have been calculated on the following basis:

Furniture and equipment	Five year straight line
Computer equipment	Three year straight-line
Leasehold improvements	Straight-line over lease term
Intangible assets ⁽¹⁾	One year straight line

⁽¹⁾ Intangible assets include the purchase of computer software

Gains and losses on disposal of property and equipment and intangible assets are determined by comparing the proceeds from disposal with the carrying amount of the property and equipment and intangible assets, and are recognized net of depreciation and amortization as part of administration expenses.

Income Taxes

The Corporation records income taxes based on the tax liability method which is the amount expected to be paid to or recovered from the taxation authorities.

Current Tax

The current tax recoverable is based on taxable income for the year. Taxable income differs from net income as reported in the Statements of Net Income and

Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's current tax recoverable is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision for Financial Assistance

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that the outflow of economic benefits will be required to settle the obligation. To meet the obligation for financial assistance described in Note 1 Nature of Organization, the Corporation provides for a provision for financial assistance based on three main components, as follows:

1. Where the need for financial assistance becomes likely and the amount for specific credit unions can reasonably be estimated.
2. Where the amount can be reasonably estimated and arises from an indemnity agreement that has been entered into with a credit union due to outcomes described in Note 1 Nature of Organization.
3. Where the Corporation has determined there is the potential for financial assistance based on an analysis of the inherent risk in the credit union system.

Revenue Recognition

Assessment Revenue

Credit union deposit guarantee assessments and special assessments are classified as revenue and are recognized when:

- The amount of revenue can be measured reliably; and
- It is probable that the economic benefit will flow to the Corporation.

Credit union deposit guarantee assessments are recognized when earned. These regular assessments are determined quarterly, and accrued monthly. Credit union payments are received four times per year.

Special assessments are recognized when earned. Special assessments would be charged only if, in the opinion of the Corporation's Board, the deposit guarantee

fund is, or is about to be, significantly below the target level. Special assessments require Ministerial approval prior to being charged.

Interest and Dividend Revenue

Interest and dividend revenue from a financial asset are recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest revenue is accrued on a time basis, by reference to principal outstanding at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend revenue is recognized when it is known that a dividend has been declared or upon receipt of payment.

Financial Instruments

Classification

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below.

Classification depends on the purpose for which the financial instruments were acquired or issued, characteristics and the Corporation's designation of such instruments.

Classifications are described below:

Cash and cash equivalents	Loans and Receivables
Accrued interest receivable and assessments receivable	Loans and Receivables
Investments	Available-for-sale (AFS)
Provision for financial assistance	Financial liabilities
Accounts payable and accrued liabilities	Financial liabilities
Long-term unclaimed credit union balances	Financial liabilities

NOTES TO FINANCIAL STATEMENTS

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Available-for-sale (AFS)

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or fair value through net income. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to other comprehensive income.

For available-for-sale financial assets that do not have quoted market prices, cost represents reasonable fair value for these assets.

Loans and Receivables

Loans and receivables are accounted for at amortized cost. Interest received is accounted for using the effective interest method.

Financial liabilities

Accounts payable and accrued liabilities, provision for financial assistance, lease inducement accrual and long-term unclaimed credit union balances have been classified as financial liabilities and have been recorded at amortized cost. Amortized cost is a reasonable estimate of the fair value of these instruments. With the exception of the lease inducement accrual which is amortized over the lease term, unclaimed balances and the provision for financial assistance, which may be dependent on the terms within an indemnity agreement, all other liabilities are short term in nature.

Impairment of financial assets

Financial assets are assessed for indicators of impairment on a quarterly basis. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

When a financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are reclassified to net income in the period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income. The carrying amount of the investment at the date the impairment is reversed will not exceed what the amortized cost would have been had the impairment not been recognized.

Effective interest method

The Corporation uses the effective interest method to recognize interest income or expense which includes premiums or discounts earned on or incurred for financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transaction Costs

Transaction costs related to financial assets and liabilities are expensed as incurred as these do not represent material amounts.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Corporation does not have finance leases. Operating lease payments, net of any lease inducements, are recognized on a straight-line basis over the lease term.

The current lease for office premises commenced for a five year period beginning September 1, 2011 with an option to extend the lease term for an additional five years.

Employee Benefits

The Corporation has a defined contribution plan and pays fixed contributions to a separate entity with no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense on the statement of income in the periods during which services are rendered by employees.

Termination benefits

The Corporation recognizes termination benefits only when there is evidence that the employee is leaving the Corporation. Termination amounts are either paid with the final pay or are accrued to be paid at the appropriate time.

Short-term employee benefits

Short-term employee benefit obligations are measured at cost on an undiscounted basis and are expensed as the related service is provided.

Comprehensive Income and Accumulated Other Comprehensive Income ("AOCI")

Comprehensive income is comprised of net income and other comprehensive income. For the Corporation, other comprehensive income includes net unrealized gains and losses on segregated and pooled funds classified as available-for-sale.

Amounts recognized in other comprehensive income will eventually be reclassified to the Statements of Net Income and Comprehensive Income and reflected in net income as gains or losses once securities, classified as AFS, are realized.

Comprehensive income and its components are disclosed in the Statements of Net Income and Comprehensive Income. The Statements of Changes in Equity present the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Statements of Financial Position.

New Standards and Interpretations Not Yet Adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these financial statements.

Standards that may impact the Corporation include:

IAS 1: Presentation of Financial Statements

On June 16, 2011 the IASB issued amendments to IAS 1: Presentation of Financial Statements. This amendment requires all entities to present a single statement of comprehensive income, thus removing the 'two statement approach' (separate statements of income and comprehensive income), effective for financial years beginning on or after 1 July 2012. The Corporation is currently assessing the presentation requirements, which must be applied prospectively for the annual periods beginning on or after January 1, 2013.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 9: Financial Instruments

This standard defines a new way to classify and measure financial assets and liabilities and will replace *IAS 39: Financial Instruments: Recognition and Measurement*. Under this standard financial assets will be classified into three categories (amortized cost, fair value through profit or loss and fair value through equity) based on the contractual cash flow characteristics of the financial assets. On December 16, 2011 the International Accounting Standards Board (IASB) issued amendments to *IFRS 9: Financial Instruments* deferring the mandatory effective date from January 1, 2013 to January 1, 2015.

Since the impact of the adoption depends on the financial instruments held by the Corporation on the date of adoption, the impact of any changes cannot be quantified at this time.

IFRS 10: Consolidated Financial Statements

On May 12, 2011, the IASB issued *IFRS 10: Consolidated Financial Statements*. *IFRS 10* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. *IFRS 10* includes a new definition of control that determines which entities are consolidated.

The Corporation is currently assessing the presentation and preparation requirements, which must be applied prospectively for the annual periods beginning on or after January 1, 2013.

IFRS 12: Disclosure of Interests in Other Entities

On May 12, 2011, the IASB issued *IFRS 12: Disclosure of Interests in Other Entities*. This new standard

establishes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The Corporation is currently assessing these disclosure requirements, which must be applied prospectively for annual periods beginning on or after January 1, 2013.

IFRS 13: Fair Value Measurement

On May 12, 2011 the IASB issued *IFRS 13: Fair Value Measurement*. *IFRS 13* establishes a single framework for all fair value measurements when the fair value is required or permitted by IFRS. The effective date of implementation for *IFRS 13* is January 1, 2013. *IFRS 13* does not change the manner by which fair value for the Corporation is determined.

NOTE 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are on deposit in the Consolidated Cash Investment Trust Fund ("CCITF") of the Province which is managed with the objective of providing competitive interest income while maintaining appropriate security and liquidity of capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2012, securities held in CCITF have a rate of return of 1.3% per annum (2011: 1.3%).

NOTE 5 INVESTMENTS

The Corporation has classified all investments, including units in the Bond Pool, as available-for-sale. These investments are measured on the Statements of Financial Position at fair value.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 INVESTMENTS (Continued)

Fair Value

The fair value of the Corporation's financial instruments is summarized below:

(thousands of dollars)	December 31, 2012		December 31, 2011	
	Fair Value ¹	Cost	Fair Value ¹	Cost
Directly held:				
Securities issued or guaranteed by:				
Canada	\$ 40,355	\$ 38,694	\$ 40,689	\$ 38,770
Provinces	46,822	43,989	29,602	26,665
Financial institutions	53,221	51,807	48,895	47,258
Asset backed securities and other	21,068	20,517	14,158	13,562
Bond Pool	32,596	31,387	30,321	28,032
Total	\$ 194,062	\$ 186,394	\$ 163,665	\$ 154,287

¹ Fair value is calculated using independent pricing sources and Canadian investment dealers. The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is an estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Investment in bonds and units in the Bond Pool are valued at year end quoted prices where available. For those investments where quoted market prices are not available, estimated fair values are calculated using discounted cash flows that reflect current market yields.

Fair Value Hierarchy

The table below provides a summary of management's best estimate of the relative reliability of data or inputs used to measure the fair value of the Corporation's investments. The measure of reliability is determined based on the following three levels:

Level One:	The fair value is based on quoted prices in active markets.
Level Two:	The fair value is based on inputs other than quoted prices that are observable market data. Generally included in this category would be Government of Canada bonds, provincial government bonds, municipal bonds and chartered bank deposit notes.
Level Three:	The fair value is based on inputs that are not based on observable market data.

(thousands of dollars)	Level One	Level Two	Level Three	Total
Investment:				
Fixed income securities, directly held	\$ 15,074	\$ 146,277	\$ 115	\$ 161,466
Bond Pool	3,095	29,501	-	32,596
Dec. 31, 2012 – Total	18,169	175,778	115	194,062
Percent	9%	91%	0%	100%
Dec. 31, 2011 – Total	20,885	142,665	115	163,665
Percent	13%	87%	0%	100%
(Decrease)/increase during the year	\$ (2,716)	\$ 33,113	\$ -	\$ 30,397

NOTES TO FINANCIAL STATEMENTS

NOTE 5 INVESTMENTS (Continued)

Investment Income

Investment income is as follows:

	2012	2011
Interest income	\$ 7,006	\$ 6,471
Gain on sale of investments	614	1,583
Loss on sale of investments	(214)	(717)
Total Investment Income	\$ 7,406	\$ 7,337

For 2012, no adjustment for impairment losses are required.

Investment Risk Management

The Corporation's investment policy permits investments in fixed income securities on a segregated basis and units of a bond pool. Investments are independently managed by the Alberta Investment Management Corporation ("AIMCo"). AIMCo is a provincial corporation responsible to the Minister of Treasury Board & Finance. The Corporation classified all investments in fixed income securities and the units in the Universe Fixed Income Pool ("Bond Pool") as available-for-sale ("AFS").

In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages AIMCo, an experienced independent fund manager to manage the portfolio. The Corporation's management is responsible for monitoring performance, recommending changes to the Corporate Investment Policy and fund manager. The Board of Directors is responsible for governance and strategic direction of the investment portfolio through its annual review and approval of the Corporate Investment Policy. During 2012 the Corporation completed a detailed analysis of the current investment policy and determined that policy revisions were required to increase flexibility in investment strategies in order to improve investment returns with minimal impact on the overall risk level.

Per the revised policy, the Corporation's investment portfolio is managed with the objective of providing 25 basis points greater than the average investment return over a rolling four year period on the aggregate portfolio based on market benchmarks comprised of 41.5% DEX Short Term *All Government Index*, 41.5% DEX Mid Term *All Government Index* and 17.0% on the DEX Universe Bond Index.

While the majority of funds are invested in high quality Canadian fixed income and debt related investments, a portion of the investments are maintained in a Bond Pool. Included in the Bond Pool are certain derivative contracts.

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. Derivative contracts held indirectly through pooled funds are used to enhance return, manage exposure to interest rate risk and foreign currency risk and for asset mix management purposes.

The Corporation is exposed to risks of varying degrees of significance which could affect its ability to meet its obligation to guarantee deposits at credit unions. The main objectives of the Corporation's risk management processes are to properly identify risks and maintain adequate capital in relation to these risks. The principal investment risks to which the income and financial returns of the Corporation are exposed are described below.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 INVESTMENTS (Continued)

Capital Risk

The Corporation is not subject to externally imposed regulatory capital requirements. The capital of the corporation consists of equity in the Deposit Guarantee Fund. Accumulated other comprehensive income is not included in the calculation of capital. The Corporation's capital target is for the Deposit Guarantee Fund to reach 1.5% of total credit union deposits and borrowings. This target is to be achieved by December 31, 2017. As at December 31, 2012 the fund is at 1.07% of total credit union deposits and borrowings. The Corporation manages capital through the following: quarterly reporting to the Board of Directors through its committees on financial results and capital, setting budgets and reporting variances to those budgets, establishing the Corporate Investment Policy, monitoring and reporting, and reviewing the adequacy of the Deposit Guarantee Fund annually in conjunction with the review of assessment rates for credit unions.

Credit Risk

Credit risk related to securities arises from the possibility that the counter-party to an instrument fails to discharge its contractual obligation to the Corporation or the possibility of a decline in the value of a debt security following a rating downgrade.

To mitigate credit risk, the Corporation has established specific rules with respect to the credit ratings of counter-parties so that they do not fall below an acceptable threshold. The Corporation only invests in issuers of debt instruments with a credit rating of A for federal and provincial investments, AA for financial institutions, AAA for asset backed securities and A for Utility and Transportation from recognized credit rating agencies: Standard & Poors ("S&P") or Dominion Bond Rating Service ("DBRS"). DBRS is used to rate most fixed income investments, followed by S&P. The Bond Pool limits its credit exposure by dealing with counter-parties having a credit standing A plus or greater.

The table below shows the credit risk exposure, by bond rating, at the end of the reporting period.

<i>(thousands of dollars)</i>						
Bond Rating	Fair Value	2012 Book Value	% of Total	Fair Value	2011 Book Value	% of Total
AAA	\$ 61,308	\$ 59,096	31.6%	\$ 54,732	\$ 52,217	33.5%
AAm	53,221	51,807	27.4%	48,894	47,258	29.9%
AAI	17,896	17,304	9.2%	9,076	8,520	5.5%
Ah	28,926	26,685	14.9%	20,527	18,145	12.6%
Pool	32,596	31,387	16.8%	30,321	28,032	18.5%
	\$ 193,947	\$ 186,279	100.0%	\$ 163,550	\$ 154,172	100.0%

Note: Excludes Credit Union Central Alberta Limited (\$100,000) and Concentra Financial Services Association shares (\$15,000) as there is no credit risk associated with these equities.

Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's cash and funding requirements in support of the guarantee of deposits at credit unions. Management expects that the Corporation's principal sources of funds will be cash generated from credit union deposit guarantee assessments and interest

earned on its investments to meet its financial obligation to guarantee deposits at the credit unions. The Corporation's Investment Policy provides for a minimum of \$3 million (2011: \$3 million) of investments to be held in cash or financial instruments maturing within one year. All the Corporation's investments are classified as available-for-sale and can readily be sold should the need arise.

NOTES TO FINANCIAL STATEMENTS

Market Risk

Market risk relates to the possibility that investments will change in value due to future fluctuations in market prices. Investments are carried on the Statements of Financial Position at fair value and are exposed to fluctuations in fair value. Changes in unrealized gains (losses) to the value of investments are recorded as other comprehensive income, net of any impairments which are recognized immediately in net income.

The Corporation is exposed to interest rate fluctuations as a result of normal market risk. This can affect cash flows, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. The Corporation's portfolio is positioned defensively on interest rates with shorter duration relative to its benchmark with a view that the current low yield environment is not sustainable, especially in Canada. A one percent increase or decrease is used when reporting interest rates to represent management's assessment of a possible reasonable change in interest rates. Any changes would impact cash flow, term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. An increase or decrease of one percent would result in a decrease or increase of \$9,000,000 (2011: \$7,523,000) in the fair value of total investments.

As at December 31, 2012, securities directly held (excluding the Universe Fixed Income Pool) have an average effective yield of 1.9% based on fair value (2011: 2.0%). These securities have the following term structure: under one year 3% (2011: 0%), over one year and under five years: 53% (2011: 58%), over five years and under ten years: 44% (2011: 42%).

The Corporation owns units in the Universe Fixed Income Pool representing approximately 0.5% of the Pool's outstanding units. The Pool is comprised of Canadian fixed-income instruments and debt related derivatives. As at December 31, 2012, securities held by the Pool have an average effective market yield of 4.1% per annum (2011: 4.0% per annum) and the following term structure based on principal amount under one year 3% (2011: 3%), one to five years: 41% (2011: 39%) and over

five: 56% (2011: 58%). The Pool includes derivative contracts with a total net positive fair value of \$169,000 (2011: \$55,000). The investment in units of the Bond Pool can be liquidated with one week's notice.

NOTE 6 ASSESSMENTS RECEIVABLE

Assessments receivable are classified as 'Loans and Receivables' and are, therefore, measured at amortized cost.

Assessments receivable refer to the outstanding balance, owed by credit unions, for the fourth quarter assessment charged by the Corporation. As of November 1, 2012 the assessment rate was reduced from 15 bps to 14 bps. Assessments are based on credit union quarter ends with the December receivable being an accrual based on October results. Invoices are not issued until February of the following year. Variances between the accruals made and actual billed are minimal (Oct. 2012: 1.15% and Dec. 2011: -0.2%) The majority of invoices are paid within a week of processing as payment is done via electronic fund transfers.

NOTE 7 RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with an Alberta Crown Corporation and departments related to the Corporation by virtue of common control or influence by the Province. Routine operating transactions and outstanding balances with any related parties, which are settled at prevailing market prices under normal trade terms and conditions, no more or less favorable than with non-government parties dealing with arm's length, are incidental and not disclosed.

The Board of Directors and the senior management and their close family members, are also deemed to be related parties. The Board Chair for the Corporation reports directly to the Minister of Treasury Board & Finance. As at the reporting date, there were no business relationships or transactions, other than compensation, between the Corporation, board members and its senior management that require disclosure in these financial statements (see Note 14 Directors' and Management Remuneration).

NOTES TO FINANCIAL STATEMENTS

NOTE 8 CAPITAL ASSETS

Property and Equipment

<i>(thousands of dollars)</i>	2012	2011
Cost	\$ 1,386	\$ 1,376
Accumulated depreciation	(805)	(618)
Net Book Value	581	758
Furniture and equipment	61	69
Computer equipment	76	107
Leasehold improvements	444	582
Net Book Value	\$ 581	\$ 758

<i>(thousands of dollars)</i>	Furniture & Equipment	Computer Equipment	Leasehold Improvements	Total
Cost				
Balance at December 31, 2011	\$ 413	\$ 298	\$ 665	\$ 1,376
Additions	18	24	-	42
Adjustments	-	-	(19)	(19)
Disposals	-	(13)	-	(13)
Balance at December 31, 2012	431	309	646	1,386
Accumulated Depreciation				
Balance at December 31, 2011	344	191	83	618
Disposals	-	(13)	-	(13)
Depreciation expense	26	55	119	200
Balance at December 31, 2012	370	233	202	805
Net Book Value	\$ 61	\$ 76	\$ 444	\$ 581

As at December 31, 2012, the cost of fully depreciated capital assets that are still in use are as below:

<i>(thousands of dollars)</i>	2012	2011
Furniture and Equipment	\$ 307	\$ 283
Computer equipment	141	104
Leasehold improvements	-	-
Total Fully Depreciated Capital Assets	\$ 448	\$ 387

NOTES TO FINANCIAL STATEMENTS

NOTE 8 CAPITAL ASSETS (Continued)

Intangible Assets

<i>(thousands of dollars)</i>	2012	2011
Cost	\$ 400	\$ 401
Accumulated amortization	(284)	(275)
Net Book Value	\$ 116	\$ 126

As at December 31, 2012 the cost of fully amortized intangible assets is \$283,000 (2011: \$265,000).

NOTE 9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are classified as 'financial liabilities' and therefore measured at amortized cost.

Accounts payable refers to trade payables. Trade payables are outstanding invoices to vendors, payable upon receipt. Accrued liabilities refer to obligations to employees or vendors where no invoice has been received.

<i>(thousands of dollars)</i>	2012	2011
Accounts payable	\$ 36	\$ 130
Accrued liabilities	848	937
Accrued lease inducements	365	465
	\$ 1,249	\$ 1,532

NOTE 10 PROVISION FOR FINANCIAL ASSISTANCE

To fulfill the mandate described in Note 1 Nature of Organization and as described in Note 3 Provision for Financial Assistance, the Corporation assists Alberta credit unions experiencing financial difficulties when, and as required. The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide financial assistance in the outcomes referred to in Note 1 Nature of Organization.

The provision for financial assistance is based on potential payments that are established to include the probability and estimated amount of financial assistance

payments for an individual credit union or, if deemed necessary by management, an assessment of the aggregate risk for the system.

A contingent liability for financial assistance arises from a liability of sufficient uncertainty with respect to the probability and amount of the expected outflows such that it does not qualify for recognition as a provision. Depending on the probability of loss occurring, contingent liabilities may be disclosed in the notes to the financial statements. Contingent liabilities may be established based on potential individual credit union assistance payments and/or an assessment of the aggregate risk in the credit union system.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 PROVISION FOR FINANCIAL ASSISTANCE (Continued)

Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the IFRS standards. Calculations include management's judgment based on historical information and other factors. Credit union analysis includes a review of all credit unions based on key financial and risk information:

- Aggregate score and individual components of capital, asset quality, management, earnings and liquidity; and composite risk ratings;
- The credit union's financial strength, including capital strength to absorb potential losses and earnings trends;

- Whether the credit union appears to have appropriately valued assets;
- Loans in the Borrower Risk Rating ("BRR") that fall into categories 6 (Watch List), 7 (Unacceptable Risk – Non Performing), 8 (Impaired Risk Performing), and 9 (Impaired Risk Non Performing);
- Impaired loans by category and Loan Transaction Review ("LTR") results;
- Whether allowances for impairment appear reasonable compared to total impaired loans and loans in the BRR 8 and 9 categories; and
- Provisions and contingencies related to amalgamations or arrangements and any indemnity agreements

<i>(thousands of dollars)</i>	Balance
Provision for financial assistance – December 31, 2011	\$ 969
Change in provision for financial assistance	(731)
Provision for financial assistance – December 31, 2012	\$ 238

The actual financial assistance required under this provision will be paid by the end of 2013.

<i>(thousands of dollars)</i>	2012	2011
(Recovery of) provision for financial assistance		
Change in financial assistance provision	\$ (731)	\$ (231)
Financial assistance payments	724	315
Recoveries	(4)	-
(Recovery of) provision for financial assistance	\$ (11)	\$ 84

NOTES TO FINANCIAL STATEMENTS

NOTE 11 COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Corporation is a lessee for an operating lease related to a five-year agreement for office space commencing September, 2011 with an option to renew for an additional five years.

The following represents the minimum payments over the next five years.

Not later than one year	\$ 551
Later than one year and not later than 5 years	\$ 1,469
Later than 5 years	\$ -

Litigation

There is a legal proceeding pending against the Corporation that arose from normal business activities.

Management of the Corporation believes that the financial cost of resolution of this proceeding will not be material to the financial position of the Corporation and that no provision is required.

NOTE 12 INCOME TAXES

The Corporation is a deposit insurance corporation for income tax purposes and pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Its taxable income excludes deposit guarantee assessments and financial assistance recoveries and no deduction may be made for financial assistance payments.

The Corporation's statutory income tax rate is 21% (2011: 21%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before taxes for the following reasons:

<i>(thousands of dollars)</i>	2012	2011
Expected income tax expense on pre-tax net income at the statutory rate	\$ 5,559	\$ 5,513
Add (deduct) tax effect of:		
Non-taxable assessments	(5,609)	(5,394)
Non-deductible provision for financial assistance	(2)	18
Other	10	(16)
Current Tax Adjustments	(42) 10	121 (11)
Total Income Tax Expense (Recovery)	\$ (32)	\$ 110

At December 31, 2012 the non depreciated property and equipment values for income tax purposes are lower than the related book values by approximately \$53,000 (2011: \$25,000). The resulting future income taxes recoverable are reflected in the Statements of Financial Position. The Corporation's future effective income tax rate is 21% (2011: 21%).

NOTE 13 REVENUE

The Corporation charges quarterly deposit guarantee assessments to credit unions to carry out its legislated mandate. In 2012, the Corporation earned \$26,706,000 (2011: \$25,687,000) from deposit guarantee assessments charged to credit unions. Assessments received by the Corporation from the largest credit union represents 59.4% of the total assessments received.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 DIRECTORS' AND MANAGEMENT REMUNERATION

2012				
<i>(thousands of dollars)</i>	Salary ¹	Other Cash Benefits ³	Other Non Cash Benefits ⁴	Total
Chair ^{5,6}	\$ 38	\$ -	\$ -	\$ 38
Board Members ^{5,6}	191	-	-	191
Current senior management:				
President & Chief Executive Officer ²	270	825	18	1,113
Executive Vice President, Regulation & Risk Assessment	198	52	23	273
Vice President, Finance, Governance & Human Resources	183	50	25	258
Vice President, Strategy, Analysis & Information Technology	170	47	22	239
Total Remuneration	\$ 1,050	\$ 974	\$ 88	\$ 2,112

2011				
<i>(thousands of dollars)</i>	Salary ¹	Other Cash Benefits ³	Other Non Cash Benefits ⁴	Total
Chair ^{5,6}	\$ 32	\$ -	\$ -	\$ 32
Board Members ^{5,6}	132	-	-	132
Current senior management:				
President & Chief Executive Officer	264	98	34	396
Executive Vice President, Regulation & Risk Assessment	192	51	23	266
Vice President, Finance, Governance & Human Resources	187	50	28	265
Vice President, Strategy, Analysis & Information Technology	166	46	21	233
Total Remuneration	\$ 973	\$ 245	\$ 106	\$ 1,324

¹ Salary includes regular base pay.

² In June 2012, the President & Chief Executive Officer retired. From June through December, a board member temporarily filled the position under contract until a new President & Chief Executive Officer was recruited.

³ Other cash benefits include retirement allowance and vacation pay, bonus, perquisite amounts, computer grant and Employment Insurance refund.

⁴ Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, Group Registered Retirement Savings Plan, dental coverage, medical benefits, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, professional memberships and staff fund.

⁵ The Chair receives a \$10,000 annual retainer. The Chair and Board Members are paid on a per diem basis for preparation and meeting time. The Deputy Minister of Treasury Board & Finance of the Province is a Board Member but receives no remuneration from the Corporation.

⁶ The minimum and maximum amounts paid to directors were \$6,000 (2011: \$16,000) and \$51,000 (2011: \$32,000) respectively. The average amount paid to directors was \$29,000 (2011: \$20,000).

NOTES TO FINANCIAL STATEMENTS

NOTE 15 RETIREMENT BENEFIT PLANS

The Corporation maintains a defined contribution plan for its employees where the cost is charged to net income or expenses when recognized. The Corporation contributes 6% of the employees' gross salary including any paid vacation pay to each employee's RRSP on a matching basis, and participation is compulsory for all employees. The RRSP deductions are remitted monthly to the administrator of the group plan.

The total expense recognized in the Statements of Net Income and Comprehensive Income of \$212,000 (2011: \$217,000) represents contributions payable to these

plans by the Corporation. As at December 31, 2012, no contributions (2011: Nil) were due in respect of the 2012 reporting period.

The Corporation does not have any defined benefit plans nor are there any post retirement benefits.

NOTE 16 2012 BUDGET

The 2012 budget was approved by the Board of Directors on September 21, 2011.

NOTE 17 ADMINISTRATION EXPENSES

	2012	2011
Salaries and benefits	\$ 5,612	\$ 4,933
Lease payments	449	364
Professional fees	364	314
Other	341	147
Board and committee fees	229	164
Depreciation and amortization	212	193
Office	192	325
Staff travel	169	178
Board and committee expenses	85	71
	\$ 7,653	\$ 6,689

CORPORATE GOVERNANCE PRACTICES

The Board of Directors and management have established governance practices that are consistent with the Guidelines for Improved Corporate Governance in Canada adopted by the Toronto Stock Exchange. Our governance practices are also consistent with the National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices. While we are not required to follow these guidelines, the Corporation will continue to follow best practices guidelines on governance as these come into effect and consider amendments to our practices, as appropriate. We reviewed the Canadian Securities Administrators CSA Staff Notice 58-306, 2010 Corporate Governance Disclosure Compliance Review, dated December 2, 2010, in 2011 and are in compliance with the report's guidance for corporate disclosure.

The Agency Governance Secretariat was established to provide agencies, boards and commissions of the Alberta government with a Public Agencies Governance Framework. This framework applies to the Corporation and we reviewed enhancements to our current practices to add value and to continue to contribute to organizational effectiveness and performance. For the 2012 Annual Report, we enhanced our governance practices and these are included below.

The Board of Directors oversee the business and affairs of the Corporation and operates under formal Terms of Reference. The Board makes all major policy decisions for the Corporation. Many Board functions are carried out by the three committees of the Board, with committee recommendations debated and voted on by the Board.

The Board has a "Code of Conduct and Ethics Policy for Directors" that is acknowledged on an annual basis. The effectiveness of the Board and the committees is assessed annually by each director with the objective of continually improving corporate governance practices.

Board Mandate

The Board is responsible for the stewardship of the Corporation and ensures its purposes and business activities as outlined in the *Credit Union Act* are fulfilled, as per its Terms of Reference.

- the Board holds a planning meeting annually for the development of a strategic plan. In accordance with the Bylaws, the final plan is approved by the Board and submitted to the Minister of Treasury Board & Finance for approval.
- the risks of the Corporation are identified on a regular basis through the strategic planning process and at Board and committee meetings. The Corporation has adopted an Enterprise Risk Management Framework.
- the Governance & Human Resources Committee reports to the Board regarding senior management succession planning and staff training. The Board monitors and approves the appointment of the President & CEO position.
- the Board approves the communications policy for the Corporation.
- the integrity of internal controls and management information systems are reviewed at Audit & Finance Committee meetings.
- the Board administers the Mandate and Roles Document, between the Minister of Treasury Board & Finance and the Corporation.
- the Board reviews of committee memberships and Terms of Reference annually.
- the Board approves and monitors the bylaws, policies and practices of the Corporation.
- the Audit & Finance Committee reviews quarterly financial reports and performance and recommends the approval of annual audited financial statements to the Board.
- the Board reviews recommendations from the committees and establishes ad hoc task forces of the Board as needed.
- the Board establishes appropriate deposit guarantee rates assessed to the credit unions.
- the Board approves the Annual Report.

Composition of the Board

All the directors are appointed by the Lieutenant Governor in Council and are "unrelated" and independent of management, except for the Deputy Minister of Treasury

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Board & Finance. Credit Union Central Alberta Limited (Central) provides names of two nominated representatives. The Minister appoints the Chair and Vice Chair. The Board annually reviews its composition to determine that a majority of directors are “unrelated” (independent). The size of the Board is up to nine members as specified in the *Credit Union Act*. A process exists for the Corporation to make recommendations to amend the *Credit Union Act*.

Committees of the Board

The Committees of the Board are composed of outside directors who are unrelated. There are three committees of the Board; the Audit & Finance Committee, the Governance & Human Resources Committee, and the Risk Management Committee. Some of the functions of the Audit & Finance Committee and the Risk Management Committee are legislated under the *Credit Union Act*. Each of the committees consists of a majority of directors who are independent and free from any relationship that may interfere with the exercise of independent judgment.

The roles of the Audit & Finance Committee are clearly defined in the *Credit Union Act* and in its Terms of Reference which is approved by the Board. The duties of the Audit & Finance Committee include the oversight for management reporting on internal control, financial reporting content and the independent audit processes. The Audit & Finance Committee meets at least annually with external and internal auditors, without management present, to discuss and review specific issues. In addition, this Committee oversees the Whistleblower Policy and any related concerns. The Audit & Finance Committee reports on the financial performance of the Corporation and reviews and recommends financial policies when required. The Governance & Human Resources Committee operates under its Terms of Reference. This committee is responsible to oversee matters of Board governance & human resources and to recommend changes to the Board as appropriate. The duties of the Risk Management Committee are to monitor and report to the Board on significant risks within the credit union system, provide oversight on the credit and risk management functions of

the Corporation and to assume the duties, functions and powers of a special loans committee.

The Terms of Reference for the Board and committees were reviewed. All board and committee activities for 2012 were completed. Work plans for 2013 outlining planned activities for the Board and committees were developed.

Nomination of Directors

The Nominations Committee, consisting of the Chair of the Board, Deputy Minister of Treasury Board & Finance and an independent representative, appointed by the Minister of Treasury Board & Finance, will review prospective candidates. The Governance & Human Resources Committee reviews the skill sets of the Board and develops and maintains a Board Competency Matrix and a Board Succession Plan. New candidates for Board nomination are identified through the annual review of the Board Succession Plan.

In preparation for the search and selection process, the Governance & Human Resources Committee will set clear recruiting priorities. This will include:

- Review of the Board’s Competency Matrix and identification of gaps between skills and knowledge required,
- Review of the current Director Recruitment Profile document,
- Review of the Corporation’s Strategic Plan,
- Review of current composition of the Board to achieve diversity.

The Nominations Committee will put forward a short-list for consideration by the Minister of Treasury Board & Finance. The Minister of Treasury Board & Finance will make a decision on the Director appointment, advise the Board Chair and make this recommendation to the Lieutenant Governor in Council. The Board recognizes that the ultimate responsibility for developing and posting job profiles and making Board appointments rests with the Government of Alberta. The recruitment process for Directors has been updated as per the Governance Secretariat template and guidelines.

CORPORATE GOVERNANCE PRACTICES

Meetings of Independent Directors

The Board does not have any directors who are members of management; therefore the Board functions independent of management. The Chair ensures the Board carries out its responsibilities effectively. The Board has made a provision for individual directors to engage an outside adviser at the expense of the Corporation when appropriate. The engagement is subject to approval by the Board. An in-camera session (without management present) is held at least at the quarterly meeting. There were 5 Board meetings held during 2012.

Position Descriptions

The Governance & Human Resources Committee reviews the position description for the Chair, Vice Chair, Board members, and the President & CEO on an annual basis. This committee also makes recommendations to the Board regarding the annual objectives and targets and the annual performance assessment for the President & CEO.

Compensation

The Corporation is a Provincial corporation according to the *Financial Administration Act*. Compensation for directors of the Corporation is established by the *Committee Remuneration Order* approved by the Lieutenant Governor in Council. The Chair of the Board also receives an annual retainer.

The Governance & Human Resources Committee reviews corporate human resource matters, personnel policies and overall employee compensation arrangements as outlined in its Terms of Reference. Recommendations are made to the Board with respect to compensation, incentive compensation plans and overall employee compensation arrangements. The Corporation has a Succession Planning Policy, a General Recruitment Policy and an Executive Recruitment Policy.

Orientation and Continuing Education

The Governance & Human Resources Committee oversees the orientation and education program which is provided to new Board members. The committee reviews

the Board Governance Handbook which outlines the role of the Board, its committees and directors, the Corporation Bylaws and Policies and an overview of the Corporation's business and the nature and operation of each department. The Board Governance Handbook and the Board Orientation Handbook were reviewed, updated and merged to create one reference handbook. The Governance & Human Resources Committee oversees the education for all directors. The orientation for new directors was enhanced in 2012. The Chair approves all educational requests for directors. Educational opportunities are provided at Board meetings.

The matrix that identifies competencies required for the Chair and members of the Board and the current competencies of existing members is reviewed annually. The Board reviewed the Director Orientation and Professional Development Policy and reviewed Director Training opportunities for 2012.

Regular Board Assessments

The Governance & Human Resources Committee is responsible for developing and administering performance questionnaires to evaluate performance and effectiveness of the Board and Committees. The performance questionnaires are completed annually. The results are analyzed and reviewed by the Governance & Human Resources Committee and the Board, who consider whether any changes to the Board's processes, composition or committee structure are appropriate. The Chair reviews the contribution and performance of individual directors with each director annually.

Code of Business Conduct and Ethics

The Board has adopted a written Code of Conduct and Ethics for Directors and for officers and employees. The Code addresses the following:

- conflicts of interest, including transactions or agreements where a director has a material interest
- protection and proper use of corporate assets and opportunities
- confidentiality of corporate information

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- fair dealing with customers, suppliers and employees
- compliance with laws, rules and regulations
- reporting of any illegal or unethical behavior.

The Governance & Human Resources Committee monitors compliance with the Code on an annual basis. All directors and employees are required to annually acknowledge the Code and compliance with it. No departures from the Code have been identified. If a director has a material interest relating to a transaction, this is to be disclosed to the Chair

and that director must be excused from the discussion and voting on this matter. The Board encourages and promotes a culture of ethical business conduct by emphasizing good governance practices through the Governance & Human Resources Committee's regular review of the Mandate and Roles Document and Board Governance Handbook. The Code of Conduct & Ethics, the Mandate and Roles Document and the Director Recruitment Process are available on our website www.cudgc.ab.ca

BOARD AND COMMITTEES

Members	Meetings Attended ²	Responsibilities
Board		
Ken Motiuk (Chair) ¹	4	The Board of Directors operates under formal Terms of Reference and has fulfilled its functions during 2012. The main functions of the Board are to: <ul style="list-style-type: none">• Establish and monitor strategic direction of the Corporation• Approve and monitor the Corporation's current business plan• Oversee the risks of the Alberta credit unions and the Corporation• Establish the appropriate deposit guarantee rate assessed to Alberta credit unions• CEO selection, evaluation and compensation• Review Board membership annually• Report to the Minister and other parties as required by the <i>Credit Union Act</i> and Regulations.
Herb Der (Vice Chair)	5	
David Dominy ³	5	
David Field	4	
Ross Goldsworthy	5	
Peter Lindhout	5	
David McDonald	5	
Loraine Oxley	5	
Annette Trimbee ⁴	2	
Risk Management		
Herb Der (Chair)	4	The Risk Management Committee operates under formal Terms of Reference and has fulfilled its functions during 2012. The main functions of the committee are to: <ul style="list-style-type: none">• Provide oversight for all credit union risks• Monitor the lending approval processes to ensure sound lending principles are maintained• Approve loans that exceed the CEO limits, when necessary• Give objective feedback to management on approved loan transactions.
David Dominy ³	4	
Peter Lindhout	4	
David McDonald	4	
Ken Motiuk ¹	3	
Loraine Oxley	4	
Audit & Finance		
Loraine Oxley (Chair)	4	Functions of the Audit & Finance Committee are set out in section 81 and 87 of the <i>Credit Union Act</i> and it operates under formal Terms of Reference. This committee has fulfilled its functions during 2012 and acts as a bridge between the Board of Directors and the auditors, and <ul style="list-style-type: none">• Monitors the financial performance of the Corporation• Recommends financial policies of the Corporation• Approves the Quarterly Report provided to the Minister of Treasury Board & Finance Oversees: <ul style="list-style-type: none">• Financial reporting content and processes• Systems of internal control and compliance with legal, ethical and regulatory requirements• Independent audit processes and reviews reports from internal and external auditors• Whistleblower policy and any reported concerns.
Herb Der	4	
David Dominy ³	4	
David Field	3	
Ross Goldsworthy	4	
Ken Motiuk ¹	3	
Governance & Human Resources		
Ross Goldsworthy (Chair)	4	The Governance & Human Resources Committee operates under formal Terms of Reference and has fulfilled its functions during 2012. The main functions of the committee are to: <ul style="list-style-type: none">• Oversee matters of Board governance and evaluation• Maintain Board Governance Handbook, Corporate Bylaws and Policies• Develop and maintain Board Succession Plan• Oversee orientation and education plan for directors• Monitor compliance with Code of Conduct and Ethics, Terms of Reference and Mandate and Roles Document with the Minister of Treasury Board & Finance• Review corporate human resource matters• Evaluate the performance of the President & CEO• Review succession planning and compensation for executive• Review personnel policies and overall employee compensation arrangements.
David Field	3	
Peter Lindhout	4	
David McDonald	4	
Ken Motiuk ¹	3	

¹ Chair is an ex-officio member of all committees of the Corporation.

² Does not include conference calls.

³ For meetings May – December 2012 attended as Acting President & CEO (non-voting Director).

⁴ Appointed as Director November 2012. Invited to attend meetings commencing August 2012.

¹ Chair is an ex-officio member of all committees of the Corporation.

² Does not include conference calls.

³ For meetings May – December 2012 attended as Acting President & CEO (non-voting Director).

⁴ Appointed as Director November 2012. Invited to attend meetings commencing August 2012.

BOARD OF DIRECTORS

The Corporation is administered by a Board of Directors appointed by the Lieutenant Governor in Council of Alberta.

Ken Motiuk, C.Dir., B.SC., AGR, Chair

Farm business owner

A corporate director

Mundare, Alberta

Herb Der, Vice Chair

A nominated representative from the credit union system

Red Deer, Alberta

David Dominy¹

President & CEO, Mach Ten Enterprises Inc.

A corporate director

Edmonton, Alberta

David Field, QC

Partner, Gowling Lafleur Henderson LLP

A corporate director

Calgary, Alberta

Ross Goldsworthy, CGA, CPA, ICD.D, MBA

President, R. Goldsworthy Consulting Ltd.

A corporate director

Calgary, Alberta

Peter Lindhout, FICB, FCCUI

A nominated representative from the credit union system

St. Albert, Alberta

David McDonald

A corporate director

Rocky Mountain House, Alberta

Loraine Oxley, CA, ICD.D

Canadian Institute of Chartered Accountants

Accounting Standards Oversight Council

A corporate director

Edmonton, Alberta

Annette Trimbee

Deputy Minister of Treasury Board & Finance

Province of Alberta

Edmonton, Alberta

¹ Appointed as Acting President & CEO. Was a non-voting director from May to December 31, 2012. Received compensation as a contract employee (reflected in Note 14). He did not receive Director's Fee remuneration during this period.

EXECUTIVE & MANAGEMENT TEAM

Tim Wiles, CA¹

President & Chief Executive Officer

Joel Borlé, MBA, ICD.D

Vice President, Strategy, Analysis & IT

Elaine Friedrich, CA, ICD.D

Vice President, Finance, Governance & Human Resources

Walker Rogers, AICB, ICD.D

Executive Vice President, Regulation & Risk Assessment

John Dawson

Assistant Vice President, Regulation & Risk Assessment

Maggie Fedynak, CMA

Interim Assistant Vice President, Finance

Monica Fenton

Assistant Vice President, Governance & Human Resources

Sue McCall

Assistant Vice President, Regulation & Credit Risk Assessment

Sofie McCook

Assistant Vice President, Regulation & Risk Assessment

Chris Merriman, BComm

Assistant Vice President, Regulation & Risk Assessment

Russ Morrow, MBA

Assistant Vice President, Business & Financial Analysis

Kent Pudlowski

Assistant Vice President, IT



¹ Appointed President & CEO March 1, 2013





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